

Waterfall Asset Management, LLC

Part 2A of Form ADV

("Brochure")

1140 Avenue of the Americas, 7th Floor
New York, NY 10036
212.257.4600
www.waterfallam.com

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This brochure provides information about the qualifications and business practices of Waterfall Asset Management, LLC ("**Waterfall**"). If you have any questions about the contents of this brochure, please contact us at 212-257-4600. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("**SEC**") or by any state securities authority.

Additional information about Waterfall is also available on the SEC's website at: www.adviserinfo.sec.gov. Waterfall is an SEC-registered investment adviser. This registration does not imply any level of skill or training.

Item No. 2: Material Changes

Waterfall Asset Management, LLC (“**Waterfall**” or the “**Adviser**”) is required to identify and discuss any material changes to this brochure since its last update. While this brochure has been updated since the last version was published in March 2017, Waterfall does not believe any of these changes to be material.

Waterfall recommends that you read this Brochure in its entirety.

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Item No. 4: Advisory Business

Waterfall, through its principals, Thomas Capasse and Jack Ross (“**Principals**”), and portfolio managers, provides investment advice to its clients relating to investments in distressed and high-yield structured finance securities, including asset-backed securities, consumer and commercial performing and non-performing loans, residential and commercial mortgage-backed securities (which may be distressed and/or rated sub-investment grade), privately negotiated transactions with specialty finance companies to acquire new issue assets, small-balance commercial mortgage loans, investments in pools of loans, related financial instruments and other acquisition vehicles to take advantage of certain tax, regulatory and administrative efficiencies (collectively, “**Waterfall Assets**”). As of December 31, 2017, Waterfall managed approximately \$6.82 billion in net assets on a discretionary basis (Please see Form ADV Part 1, Item 5 for information on Regulatory Assets Under Management). As of December 31, 2017, Waterfall did not manage any assets on a non-discretionary basis.

Waterfall was founded on November 30, 2004 and is managed by the Principals, and Thomas Buttacavoli, who, along with the Principals, comprise the Board of Managers of Waterfall. Please see the Adviser’s Form ADV Part 1, Schedules A and B, for additional information regarding Waterfall’s direct and indirect ownership.

Waterfall Management, LLC (“**Waterfall Management**”), Waterfall Delta GP, LLC (“**Waterfall Delta GP**”), Waterfall Sandstone GP, LLC (“**Waterfall Sandstone GP**”), Waterfall Olympic GP, LLC (“**Waterfall Olympic GP**”), and Waterfall Rock Island GP, LLC (“**Waterfall Rock Island GP**”), all Delaware limited liability companies, and affiliates of the Adviser, serve as general partners of certain private investment funds managed by Waterfall (as further described below).

Waterfall is the investment adviser to: Waterfall Eden Fund, L.P. (“**Eden LP**”), and Waterfall Victoria Fund, L.P. (“**Victoria LP**”), each a Delaware limited partnership (collectively, the “**US Funds**”); Waterfall Eden Fund, Ltd. (“**Eden Ltd**”) and the Waterfall Eden Intermediate Fund, Ltd (“**Eden Intermediate**,” and together with Eden Ltd and Eden LP, the “**Eden Funds**”); Waterfall Victoria ERISA Fund, Ltd., (“**Victoria ERISA Ltd**”), Waterfall Victoria Fund, Ltd. (“**Victoria Ltd**,” and together with Victoria LP and Victoria ERISA Ltd, the “**Victoria Funds**”), each an exempted Cayman Islands company formed under the laws of the Cayman Islands; and Waterfall Eden Master Fund, Ltd. (“**Eden Master Fund**”), Waterfall Victoria Master Fund II, Ltd (“**Victoria Master Fund II**”) and Waterfall Victoria Master Fund, Ltd. (“**Victoria Master Fund**”), each an exempted company organized under the laws of the Cayman Islands (collectively, the “**non-US Funds**”); Waterfall Olympic Master Fund, LP (“**Olympic Master Fund**”) and the Waterfall Olympic Offshore Fund, Ltd. (“**Olympic Ltd**”).

Eden LP invests substantially all of its assets in, and is a shareholder of, Eden Master Fund; Eden Ltd invests substantially all of its assets in, and is a shareholder of, Eden Intermediate, which in turn will invest substantially all of its assets in the Eden Master Fund except when Waterfall determines that it is advantageous for Eden Intermediate to make investments directly.

Victoria ERISA Ltd invests substantially all of its assets in Victoria Master Fund and is a shareholder of Victoria Master Fund; Victoria Ltd and Victoria LP invest substantially all of their

assets in Victoria Master Fund and Victoria Master Fund II and are shareholders of both Victoria Master Fund and Victoria Master Fund II. Victoria Master Fund II will invest primarily in non-ERISA eligible assets.

Olympic Ltd invests substantially all of its assets in, and is a limited partner of, the Olympic Master Fund.

The Eden Funds, the Victoria Funds, the Eden Master Fund, Victoria Master Fund, Victoria Master Fund II, the Olympic Master Fund and Olympic Ltd are herein known as the “**Funds**”.

The Adviser had previously served as the investment adviser to the Sutherland Master Fund, LP (“**Sutherland Master Fund**”). In November 2013, the assets of the Sutherland Master Fund were converted into a real estate investment trust (the “**Sutherland REIT**”). On October 31, 2016, the Sutherland REIT became a publicly traded company through its merger with and into a subsidiary of ZAIS Financial, with ZAIS Financial surviving the merger and changing its name to Sutherland Asset Management Corporation. On November 1, 2016, Sutherland REIT began trading on the New York Stock Exchange under ticker symbol “SLD”.

Waterfall also acts as investment manager to the Waterfall Delta Fund, Ltd. (the “**Delta Fund**”), Waterfall Delta Offshore Master Fund, L.P. (the “**Delta Master**,” and together with the Delta Fund, the “**Delta Funds**”), the Waterfall Sandstone Fund, LP (“**Sandstone Fund**”), and the Waterfall Rock Island, LLC (“**Rock Island Fund**”), a Delaware limited liability company. The Delta Funds, the Sandstone Fund and the Rock Island Fund invest in a strategy similar to the Eden Funds, however, interests in the Delta Funds, the Sandstone Fund and the Rock Island Fund are not offered to new investors.

Waterfall also provides investment management services to clients through separately managed accounts and other investment vehicles (the “**Investment Vehicles**”). Waterfall has managed certain of these Investment Vehicles on a sub-advisory basis, either as part of a registered fund or UCITS fund, and others in conjunction with an investment adviser which had previously been an affiliate of Waterfall (See Item No. 10).

Management for each Investment Vehicle is continuously provided for each client based upon such Client’s specific investment objectives.

Waterfall refers to the Funds and Investment Vehicles collectively herein as the “**Clients**” of Waterfall.

Item No. 5: Fees and Compensation

The Funds pay the following fees and expenses:

- The Eden Funds pay Waterfall a quarterly management fee in arrears as of the last day of each calendar quarter (the “**Eden Management Fee**”). The Eden Management Fee paid by Eden LP for any quarter is an amount ranging from 0.375% (i.e., 1.5% per annum) to 0.425% (i.e., 1.7% per annum) of the value of each limited partner’s capital account, depending upon the applicable class of Eden LP limited partnership interests, adjusted on a pro rata basis for subscriptions and withdrawals made during such calendar quarter. The Eden Management Fee paid by Eden Ltd for any quarter is an amount ranging from 0.375% (i.e., 1.5% per annum) to 0.425% (i.e., 1.7% per annum) of the net assets of Eden Ltd, depending upon the applicable class of Eden Ltd shares, adjusted on a pro rata basis for subscriptions and withdrawals made during such calendar quarter. Waterfall in its sole discretion may, in effect, waive or reduce the Eden Management Fee to be paid by any Eden Fund limited partner/shareholder, as applicable.
- The Victoria Funds pay Waterfall a quarterly management fee in arrears as of the last day of each calendar quarter (the “**Victoria Management Fee**”). The Victoria Management Fee paid by Victoria LP for any quarter is an amount equal to: 0.4375% (i.e., 1.75% per annum) for Series A and 0.375% (i.e., 1.5% per annum) for Series B, of the value of each Limited Partner’s capital account, adjusted on a pro rata basis for subscriptions and redemptions made during such calendar quarter. The Victoria Management Fee paid by the Victoria Ltd for any quarter is an amount equal to: 0.4375% (i.e., 1.75% per annum) for Series A and 0.375% (i.e., 1.5% per annum) for Series B of the net assets of Victoria Ltd, adjusted on a pro rata basis for subscriptions and redemptions made during such calendar quarter. The Victoria Management Fee paid by Victoria ERISA Ltd for any quarter is: 0.4375% (i.e., 1.75% per annum) for Series A and 0.375% (i.e., 1.5% per annum) for Series B. Waterfall may in its sole discretion waive or reduce the Victoria Management Fee to be paid by any Victoria Fund limited partner/shareholder, as applicable.
- Investors in the Eden Funds and the Victoria Funds that have interests with an aggregate net asset value of US\$100 million at the end of any calendar quarter (either individually or as part of a consultant or advisor relationship) are entitled to receive a reduced management fee.
- The Sutherland REIT pays Waterfall a management fee calculated and payable quarterly in arrears equal to 1.5% per annum of the Sutherland REIT’s stockholders’ equity up to \$500 million and 1.00% per annum of stockholders’ equity in excess of \$500 million (the “**Sutherland Management Fee**”).

Waterfall has entered, and from time to time may enter, into side letter arrangements with investors in the Funds whereby Waterfall and such investors agree to vary the terms of such investors’ investment from those provided to other investors. Such variances may include, but not limited to: (i) the greater availability to such investors of certain information, disclosures and/or reports (including personnel or other changes to Waterfall or the private investment funds, or portfolio

holdings and other information concerning the private fund's investments or such investors' investment); (ii) the timing of the delivery to such investors of such information or other private investment fund information, disclosures and/or reports; and (iii) certain other investment terms, including but not limited to reduced fees to be charged to such investors (management fee and/or incentive allocation), "key man" provisions, and/or timing for subscriptions. In the sole discretion of the Adviser the management fee may be calculated differently with respect to, or may not be charged to, certain investors, including the General Partner, the Adviser, the Principals and employees of the Adviser.

Waterfall will remit to a Client(s) (or the entity making, or proposing to make, an investment, e.g., SPV or alternative investment vehicle) transaction fees, break-up fees, commitment fees, underwriting fees, amendment fees, waiver fees, modification fees, monitoring or asset management fees, directors' fees, consulting fees, advisory fees, SPV management fees, portfolio company monitoring fees, closing fees and similar fees, payments or compensation (whether in the form of cash, options, warrants, stock or otherwise) ("**Transaction Fees**"), if any, received and retained by Waterfall from any such Client or any third-party investor (or anticipated investments in the case of a break-up fee) in which such Client(s) participated (or would have participated in the case of a break-up fee) (the "**Remitted Fee Amounts**"). If multiple Clients participate in such investment, Waterfall will remit to each Client its *pro rata* portion of the Transaction Fee (or, if third-party investors have invested or, in the case of a break-up fee, proposed to invest, in the relevant investment, the amount, multiplied by a fraction (i) the numerator of which is the amount invested (or anticipated to be invested in the case of a break-up fee) in the relevant investment by such Client and (ii) the denominator of which is the aggregate of all amounts invested (or anticipated to be invested in the case of a break-up fee) in the investment by such Client, and all other third-party investors).¹

As more fully described in each of the Funds' respective offering documents, each Fund bears all of its own, and (if applicable) its *pro rata* share of its master fund's expenses. Each Investment Vehicle is responsible for expenses as set forth in the applicable investment management agreement. Such expenses may include organizational fees including, without limitation, legal fees, accounting fees, and other expenses associated with the initial structuring, organization and closings of the Funds and the related vehicles, including any feeder, parallel, and/or alternative investment vehicles. Clients may also bear and pay all expenses related to the operations of the Funds or Investment Vehicles, including, without limitation, costs and expenses relating to: administration fees, director fees, legal fees, audit fees, liability insurance (allocated portion); regulatory filings; research expenses (including research-related travel and technology which may include specialty

¹ In certain situations, Waterfall may elect to reduce the management fee payable by such Client(s), but not below zero, dollar-for-dollar by a *pro rata* portion of the amount (or, if third-party investors have invested or, in the case of a break-up fee, proposed to invest, in the relevant investment, the amount, multiplied by a fraction (i) the numerator of which is the amount invested (or anticipated to be invested in the case of a break-up fee) in the relevant investment by such Client and (ii) the denominator of which is the aggregate of all amounts invested (or anticipated to be invested in the case of a break-up fee) in the investment by such Client, and all other third-party investors) of Transaction Fees.

Fee Offset Amounts received in any calendar quarter will reduce the management fees for the following quarter as set forth above. If the Fee Offset Amounts exceed the management fees payable for a given quarter, such excess amounts will be carried forward to one or more subsequent quarterly periods and applied to reduce the future payments of the management fee in such future quarters until such excess amounts have been fully offset. Generally, Fee Offset Amounts will not be applied to reduce any previously paid management fee amounts and if such fees are greater than the aggregate amount of future management fees that would otherwise be payable to Waterfall, Waterfall may receive more income than they otherwise would have received from Clients.

data subscription and license-based services and risk analysis software); software or other technology used to enhance the valuation process relating to Client holdings; market analysis; expenses relating to the monitoring and servicing of investment assets (which may include (i) expenses paid to affiliates of Waterfall, (ii) the salaries of non-investment related employees and other expenses of the Waterfall relating to such monitoring, servicing and related administrative activities and (iii) expenses associated with the building and maintenance of internal asset monitoring software) (internal asset monitoring, servicing, and related administrative expenses of dedicated Waterfall employees are often limited to an expense cap); transactions and fundings; fees, expenses and costs incurred in connection with the operation of subsidiaries, holding companies, or vehicles; entity-level taxes; valuing Fund and Investment Vehicle assets, which may include third party valuation services; the sale of assets in kind, and expenses related to extraordinary events such as litigation and all associated costs thereof; indemnification amounts; the costs and expenses associated with the dissolution, winding up, liquidation or termination of a Fund or the entities related thereto (including, but not limited to, any subsidiaries, holding companies or vehicles).

In addition, each Investment Vehicle is responsible for expenses relating to investment sourcing and diligence for a particular investment strategy, including sourcing and diligence expenses incurred with respect to the pursuit of particular investments that are never actually consummated. Examples of such “broken deal” expenses include fees and expenses of any legal, financial, accounting, consulting or other advisors or lenders, investment banks and other financing sources in connection with arranging financing for transactions that are not consummated, any travel and accommodation expenses, and any deposits or down payments that are forfeited in connection with, or amounts paid as a penalty for, unconsummated transactions.

These expenses are allocated to the Clients that participate in the relevant investment strategy. The proportion of such expenses allocated to any relevant Client may vary from period to period, but as a general matter, the majority of such expenses will typically be borne by the primary investment vehicles for such strategy, which includes any Client that has allocation priority in the strategy or any Client that participates in the strategy and has sufficient liquidity to participate in the transaction if consummated.

Waterfall may have a conflict of interest in determining whether certain costs and expenses incurred in the course of operating a Fund or Investment Vehicle should be paid by the Fund, Investment Vehicle or by Waterfall. While a Client’s governing documents identify the costs and expenses to be paid by the Client, questions of interpretation inevitably arise in connection with determining whether a certain cost or expense has, in fact, been so identified as well as whether newly-arising and/or unanticipated costs or expenses (including but not limited to costs and expenses arising from newly-imposed regulations and self-regulatory requirements) fit within the categories of costs and expenses described. Waterfall has adopted certain internal policies to attempt to help mitigate these issues.

In addition to the management fees outlined above, Waterfall receives performance based fees as discussed Item No. 6 herein.

Item No. 6: Performance Based Compensation and Side-by-Side Management

In addition to the management fees described in Item 5 above, Waterfall may earn performance based compensation.

- Waterfall Management, as general partner of Eden LP, and Victoria LP, may, in its sole discretion, waive or reduce the incentive allocation for any fund partner/shareholder, as applicable.
- Waterfall, as investment adviser of Eden Ltd and Victoria Ltd, may, in its sole discretion, waive or reduce the incentive allocation for any fund partner/shareholder, as applicable.
- In connection with the Sutherland REIT, stockholders and partners will bear an incentive distribution of 15% of core earnings on a rolling four quarter basis over an 8% hurdle.
- Performance based allocations for the Investment Vehicles are subject to negotiation, as detailed in their respective governing documents, and certain of the Investment Vehicles may provide for incentive based compensation.

Performance-based compensation may create an incentive for Waterfall to make investments that are riskier or more speculative than would be the case in the absence of a performance fee. To the extent a particular investment is suitable for Clients, such investments will be allocated on a basis which Waterfall believes is fair and equitable for all Clients, based upon each Client's respective investment guidelines. Such allocation may include, but not be limited to, pro rata, based on assets under management, pro rata, based upon gross assets value or rotational (see Item No. 12 below for more information on allocation).

In the sole discretion of a General Partner or the Adviser, the performance allocation may be calculated differently with respect to, or may not be charged to, certain investors, including a General Partner, the Adviser, the Principals and employees of the Adviser.

Item No. 7: Types of Clients

Waterfall provides investment advice to the Funds and other Clients, which are generally insurance companies, state, municipal or corporate pension plans, sovereign wealth funds, endowments, foundations or other institutional investors.

With respect to the Funds, Waterfall has the following restrictions: (i) minimum investment and (ii) investor qualifications. The Funds generally require a minimum initial investment of \$1,000,000, subject to waiver or reduction by the General Partner or Waterfall. The US Funds generally will be open to investment only by persons that are both “accredited investors” within the meaning of Regulation D of the Securities Act of 1933, as amended (“**Regulation D**”), and “qualified purchasers” within the meaning of Section 2(a)(51) of the Investment Company Act of 1940, as amended (the “**Company Act**”). Common shares of the Non-US Funds will be offered only to experienced and sophisticated investors who are neither citizens nor residents of the United States or to United States investors consisting primarily of tax-exempt entities, which are “accredited investors” under Regulation D and Qualified Purchasers under the Company Act. Common shares will not be offered to members of the public in the Cayman Islands.

With respect to the Investment Vehicles, Waterfall may negotiate certain minimum and maximum investment amounts with respect to the size of the Investment Vehicle and require the Investment Vehicle to meet certain criteria related to the purchase of certain assets.

Item No. 8: Methods of Analysis, Investment Strategies and Risk of Loss

Waterfall's investment strategy has four key elements: (i) to develop proprietary trading ideas based on evaluation of available information or negotiated transactions sourced from Waterfall's network of relationships and market analysis; (ii) to perform cash flow stress testing and due diligence on performing and distressed situations; (iii) to reduce market risks through conservative leverage and hedging strategies; and (iv) to reduce downside risk related to unanticipated credit events through the use of surveillance to evaluate collateral pool performance and proactively manage positions.

Generally, the first step in the investment process begins with an industry analysis of the sector or special situations involving an issuer which is or has been experiencing distress. A sector will typically be considered for analysis when an industry-wide credit event has resulted in a significant number of securities' credit ratings having been lowered or put on watch for downgrade. Apart from a sector analysis, investments involving special situations, including distressed issuers in an otherwise healthy sector, are also reviewed. In certain instances, there may have been issuer credit events which do not directly affect the collateral in the relevant trust but nonetheless impact the market for the ABS securities by raising concerns about further credit problems in similar securities. Increased market yield spreads may provide opportunities to invest in specific issues at more favorable yields and prices than their specific circumstances might otherwise warrant.

In the second step, once the sector is identified, the universe of issuers is screened primarily using quantitative analysis of the relationship between remaining credit support and expected collateral credit loss. Securities with a higher ratio of credit support to expected credit loss are generally targeted for investment.

Thirdly, once potential investments are identified prior to making an investment, Waterfall will generally:

- (1) Perform cash flow modeling for valuation purposes utilizing both vendor and in-house credit models. An important litmus test of an ABS security is whether there is sufficient remaining structural credit enhancement under various "stress test" scenarios to allow for the return of bond principal. Waterfall utilizes an expected value approach in determining the appropriate market valuation.

- (2) Conduct due diligence to validate the specific cash flow projections, which may include contacting a variety of parties involved in the security such as: investment bankers and traders, ABS and equity research analysts, rating agency analysts, servicers, competitors of the issuer or servicer, stand-by servicers, trustees, other investors and attorneys, among others.

- (3) Conduct a legal review of the security documentation to understand the priority of cash flow payments in the relevant structure.

With respect to performing and nonperforming consumer and commercial loans, Waterfall analyzes numerous criteria, including, but not limited to: current market value of the underlying properties, credit worthiness of the borrowers, seasoning of the loans, number and degree of loan defaults,

current loan-to-value ratios, borrowers' payment history and debt-to-income levels, estimated costs of modifying the mortgage loans, estimated servicing expenses and estimated loan loss reserves. Once an investment is identified, Waterfall will conduct extensive due diligence for valuation purposes, as applicable, considering factors such as whether the properties are owner-occupied, the type of loans and their terms, status of the relevant documentation and perfection of the mortgage liens, the terms of any secondary liens, the underlying property value and location. In connection with mortgage loans, a component of Waterfall's strategy is to work with the loan borrowers to avoid foreclosure, cure loan defaults and prevent future defaults. Waterfall will seek to resolve payment issues with non-performing borrowers and, with appropriate consideration of the borrower's specific economic situation and Waterfall's objectives, modify loans to enable the borrower to continue to make payments and otherwise perform on the modified mortgage loan terms. Finally, Waterfall seeks to sell the re-performing loans to state or federal agencies, government sponsored entities or others as whole loans or loan portfolios.

Additionally, Waterfall may employ active hedging strategies with the use of derivative instruments, seek leverage through repurchase transactions or secure long term facilities with financial institutions. Waterfall may also invest in acquisition vehicles to take advantage of certain tax, regulatory and administrative efficiencies.

Waterfall's investment strategies outlined above are subject to market risk such as price movements, volatility and lack of liquidity, regulatory risk, model risk and other ongoing uncertainties related to business, legal, financial or economic conditions that could affect the payments of interest and principal on the underlying securities. Although, Waterfall manages these risks by continually monitoring the assets and engaging in hedging and other strategies that mitigate and offset these risks, investments in Waterfall Assets involve a risk of loss that Clients should be prepared to bear. Examples of some of the risks associated with Waterfall's investment strategy include, but are not limited to the following (for a complete description of risks associated with a particular Fund managed by Waterfall, please refer to such Fund's offering documents):

- **Potential Loss of Investment.** There is a risk that an investment in a strategy will be lost entirely or in part. A strategy investment is not a complete investment program and should represent only a portion of an investor's portfolio management strategy.
- **Volatility.** The prices of the instruments traded within a strategy have been subject to periods of excessive volatility in the past, and such periods can be expected to continue or recur. Price movements are influenced by many unpredictable factors, such as market sentiment, inflation rates, interest rate movements and general economic and political conditions. While volatility can create profit opportunities, it can also create unusual risks, especially in a relatively concentrated portfolio.
- **Lack of Liquidity.** The markets for some of the investments traded within a strategy are subject to limited liquidity. Lack of liquidity can make it economically unfeasible for Waterfall to recognize profits on open positions or to close out open positions against which the market is moving. In addition, illiquidity can disrupt the historical price relationships on which certain of the strategies are based, as the fewer transactions that take place the greater the risk of market values not reflecting true pricing relationships or fair value.

- **Interest Rate Risk.** The value of the fixed-income securities in which the strategies invest changes as the general levels of interest rates fluctuate. When interest rates decline, the values of the fixed-income securities are generally expected to rise. Conversely, when interest rates rise, the values of such securities are generally expected to decline.
- **Securities Lending.** As part of implementing the strategy, Waterfall may, on behalf of its Clients, borrow and lend securities in the ordinary course of its business. Third parties that borrow securities may not be able to return these securities on demand (possibly causing Waterfall Clients to default on its obligations to other parties) and may also default on the payment obligations owed to the Waterfall Clients in connection with such securities loans, potentially resulting in substantial losses to such Clients.
- **Debt Instruments.** The debt instruments in which Waterfall invests in connection with a strategy may be subject to price volatility due to various factors including, but not limited to, changes in interest rates, market perception of the creditworthiness of the issuer and general market liquidity. Waterfall may choose to invest in non-investment grade debt securities, which are typically subject to greater market fluctuations and risks of loss of income and principal than lower yielding, investment grade securities and are often influenced by many of the same unpredictable factors which affect equity prices. In addition to the sensitivity of debt securities to overall interest-rate movements, debt securities involve a fundamental credit risk based on the issuer's ability to make principal and interest payments on the debt it issues. An investment in debt instruments may experience substantial losses due to adverse changes in interest rates and the market's perception of issuers' creditworthiness.
- **High-Yield Debt Instruments.** Waterfall invests in high-yield debt instruments. High-yield debt instruments face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Issuers of such debt instruments are often highly leveraged and may not have access to more traditional methods of financing. It is possible that a major economic recession could severely disrupt the market for such debt instruments and may have an adverse impact on the value of such debt instruments. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such debt instruments to repay principal and pay interest thereon and increase the incidence of default of such debt instruments.
- **Valuation.** Investors in Waterfall Funds and Investment Vehicles purchase and redeem interests based on a determination of the fair value of the assets and liabilities of the relevant Client. In addition, our management fees and incentive allocations are determined by reference to these valuations. To the extent market quotations are unavailable or Waterfall determines that such quotations inadequately represent the fair value of the assets, Waterfall

will value such positions in good faith. Investors may be adversely affected in connection with subscriptions or redemptions to the extent the values so determined are incorrect.

- ***Distressed Securities.*** Waterfall invests in distressed securities. Investment in the securities of financially and/or operationally troubled issuers involves a high degree of credit and market risk. Securities of such issuers are typically more volatile and less liquid than securities of companies not experiencing such difficulties.
- ***Modeling Risk.*** Given the complexity of Waterfall's investment process, Waterfall relies heavily on financial models (both proprietary models developed by Waterfall, and those supplied by third parties) and information and data supplied by third parties ("Models and Data"). Models and Data are used to construct sets of transactions and investments, to value investments or potential investments, to provide risk management insights, and to assist in hedging investments. When Models and Data prove to be incorrect or incomplete, any decisions made in reliance thereon expose the Clients to potential risks. Similarly, any hedging based on faulty Models and Data may prove to be unsuccessful.
- ***Litigation.*** From time to time, in the ordinary course of operations, Waterfall may be subject to litigation and arbitration, which can be costly and divert significant portions of available staff time and resources. In addition, it is possible that Waterfall may use litigation as part of an investment tactic. A Client could be party to lawsuits either initiated by it, or by a company in which such Client invests, other shareholders, or state, federal and foreign governmental bodies. There can be no assurance that any such litigation, once begun, would be resolved in favor of the applicable Client. Any litigation or arbitration could have a materially adverse effect on the involved Client.
- ***Material Non-Public Information.*** From time to time, Waterfall may receive material non-public information with respect to an issuer of publicly traded securities. In such circumstances, Clients may be prohibited, by law, policy or contract, for a period of time from (i) unwinding a position in such issuer, (ii) establishing an initial position or taking any greater position in such issuer, and (iii) pursuing other investment opportunities related to such issuer.
- ***Systems and Operational Errors.*** Waterfall relies on certain financial, accounting, data processing and other operational systems and services that are employed by Waterfall and/or by third party service providers, including the third party administrator, market counterparties and others. Many of these systems and services require manual input and are susceptible to error. These programs or systems may be subject to certain defects, failures or interruptions. For example, Waterfall and its Clients could be exposed to errors made in the confirmation or settlement of transactions, from transactions not being properly booked, evaluated or accounted for or related to other similar disruptions in the Clients' operations. Any such errors and/or disruptions may lead to financial losses, the disruption of the client trading activities, and liability under applicable law, regulatory intervention or reputational damage.

- **Risk Management.** Although Waterfall attempts to identify, monitor and manage significant risks, these efforts do not take all risks into account and there can be no assurance that these efforts will be effective. Moreover, many risk management techniques, including those employed by Waterfall, are based on historical market behavior, but future market behavior may be entirely different and, accordingly, the risk management techniques employed on behalf of Clients may be incomplete or altogether ineffective. Similarly, Waterfall may be ineffective in implementing or applying risk management techniques. Any inadequacy or failure in risk management efforts could result in material losses to Clients.
- **Foreign Investment Risk.** Investments in securities of non-U.S. issuers (including non-U.S. governments) and securities denominated or whose prices are quoted in non-U.S. currencies pose, to the extent not hedged, currency exchange risks (including blockage, devaluation and non-exchangeability) as well as a range of other potential risks which could include expropriation, confiscatory taxation, political or social instability, illiquidity, price volatility and market manipulation. Income realized, and gross sale or other disposition proceeds received, by the Clients from sources within some countries may be reduced by withholding and other taxes imposed by such countries.
- **Side Pockets.** Waterfall has allowed, and from time to time may allow, certain investors to invest in a Fund or Investment Vehicle on different terms than other investors. Such different terms may include, without limitation, different information rights, different minimum investment amounts, different transfer and liquidity rights, and different fees and allocations. The specific terms of any such arrangement, which may be detrimental to other investors of Waterfall, likely will not be disclosed to such other investors unless we determine that disclosure is required by law or contractual requirements.

Cybersecurity

The computer systems, networks and devices used by Waterfall to carry out routine business operations employ a variety of protections designed to prevent damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches. Despite the various protections utilized, systems, networks, or devices potentially can be breached. Clients could be negatively impacted as a result of a cybersecurity breach.

Cybersecurity breaches can include unauthorized access to systems, networks, or devices; infection from computer viruses or other malicious software code; and attacks that shut down, disable, slow, or otherwise disrupt operations, business processes, or website access or functionality. Cybersecurity breaches may cause disruptions and impact business operations, potentially resulting in financial losses to a Client; interference with our ability to calculate the value of an investment owned by a Client; impediments to trading; the inability of us and other service providers to transact business; violations of applicable privacy and other laws; regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs; as well as the inadvertent release of confidential information.

Similar adverse consequences could result from cybersecurity breaches affecting issuers of securities in which a Client invests; counterparties with which a Client engages in transactions; governmental and other regulatory authorities; exchange and other financial market operators, banks, brokers, dealers, insurance companies, and other financial institutions; and other parties. In addition, substantial costs may be incurred by these entities in order to prevent any cybersecurity breaches in the future.

Item No. 9: Disciplinary Information

There have been no legal or disciplinary events that are material to a Client's or prospective Client's evaluation of Waterfall's advisory business or the integrity of Waterfall's management.

Item No. 10: Other Financial Industry Activities and Affiliations

Waterfall and its Principals are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

Each of Waterfall and the General Partner is exempt from registration as a commodity pool operator and commodity trading adviser with the Commodity Futures Trading Commission (“**CFTC**”). Waterfall has claimed an exemption in respect of each applicable Fund from registration as a commodity pool under applicable requirements of the CFTC.

An affiliate of the Adviser, Waterfall Asset Management (UK) LLP (“**Waterfall (UK)**”), is authorized and regulated by the Financial Conduct Authority of the United Kingdom. Currently, the Adviser is the only client of Waterfall (UK). The relationship between the two affiliates is evidenced via a Participating Affiliate Agreement. Waterfall (UK) is majority owned by Waterfall Asset Management Holdings (UK) Limited (“**Waterfall (UK) Limited**”). The two Principals of Waterfall are board members of Waterfall (UK) Limited.

A private equity fund managed by NB Dyal Advisors LLC (“**Dyal**”) holds a passive, non-voting, minority equity interest in each of Waterfall and the General Partner. Dyal is ultimately controlled by Neuberger Berman. Dyal has no control over the investment process or day-to-day operations of Waterfall, the General Partner or the Funds, but has certain consent rights relating to the actions of Waterfall and the General Partner in respect of themselves.

Waterfall acts as sub-adviser to certain investment management clients of M.D. Sass Associates, Inc. (“**Associates**”). At the time Waterfall entered into such arrangements, Associates was an affiliate of Waterfall: Waterfall and Associates are no longer affiliated. In addition, certain employees of M.D. Sass Securities, LLC (“**Securities**”) and Associates provide investor relations and client services to certain Clients and investors in Funds, and Securities and Associates receive a fee from Waterfall for providing such services. At the time such employees of Associates and Securities, as the case may be, introduced such Clients and investors to Waterfall, Associates and Securities were affiliates of Waterfall: Waterfall and Securities are no longer affiliated. Further, Waterfall and Securities have entered into an agreement whereby Securities markets interests and shares of the Eden and Victoria Funds to potential investors. Securities receives compensation for marketing the interests and shares, which would include a portion of the management and incentive allocation received by the Advisor or the General Partner of each Fund, as applicable

Except as otherwise disclosed in this brochure, neither Waterfall nor any of its management persons has a relationship or an arrangement that is material to its advisory business or to its Clients. In addition, Waterfall has implemented policies and procedures to minimize potential or actual conflicts of interest which may have an impact on its advisory business or relationship with its Clients.

Item No. 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Waterfall (and its members, employees and affiliates) serves as investment adviser or investment manager to multiple client accounts and may (although do not currently) conduct investment activities for its or their own account(s). Such other entities or accounts (“**Other Clients**”) may have investment objectives or may implement investment strategies similar to those of the Funds and the Investment Vehicles. In that regard, Waterfall (or its members, employees and affiliates) may give advice or take action with respect to the Other Clients that differs from the advice given with respect to the Funds and Investment Vehicles, and advice given or action taken with respect to one Fund or Investment Vehicle may differ from the advice given with respect to another Fund or Investment Vehicle.

Such transactions must be consistent with the investment objectives and policies of each account and, in the view of the respective portfolio managers, in the interest of each side of the transaction, and will be conducted in accordance with applicable rules and regulations (including, if necessary, appropriate consent by the account).

Waterfall further protects the interests of the Clients by taking steps to prevent the misuse of material, non-public information and to ensure that the personal securities transactions of its personnel are not in conflict with the interests of Waterfall’s Clients. Pursuant to Rule 204A-1 Waterfall has adopted, maintains and enforces a Code of Ethics that requires all principals, employees and other persons who Waterfall deems appropriate (“**Access Persons**”) and immediate family members of Access Persons to report holdings and securities transactions to Waterfall’s Compliance Department. The Code of Ethics also sets forth standards of ethical and business conduct expected of Waterfall’s personnel, requires compliance with the federal securities laws, reflects Waterfall’s fiduciary responsibilities and those of its advisory personnel, prohibits or restricts certain personal securities transactions and requires Access Persons to periodically report certain securities holdings and transactions.

To the extent applicable, principals and employees of Waterfall will not act for their own or related accounts in anticipation of a purchase or sell recommendation for the Funds or otherwise on the basis of material non-public information. All transactions by Principals or employees are required to be reported to Waterfall’s Compliance Department, via PTCC, on a periodic basis.

Note that the foregoing summary of the Code of Ethics is qualified in its entirety by the complete text, a copy of which may be requested by contacting Kenneth Nick, Chief Compliance Officer, c/o Waterfall Asset Management, LLC, 1140 Avenue of the Americas, 7th Floor, NY, NY 10036.

Managing Investments across the Capital Structure of an Issuer

Waterfall employs a wide range of investment strategies for its Clients. In specific instances, these strategies result in buying and selling securities and instruments within different parts of an issuer’s capital structure for different Clients. In pursuing these investment strategies for Clients, Waterfall may acquire an instrument for a Client’s account that is senior on the capital structure of an issuer relative to an instrument Waterfall may acquire for another Client that is more junior on the capital

structure, or even common stock (which is in all cases junior, and subordinate, to a senior or secured creditor). Such investment decisions can be made by the same team of investment professionals for the same or different Clients depending on the investment strategy employed.

Conflicts of interest can arise when Clients invest in different parts of an issuer's capital structure, such as when one Client invests in the senior bank debt or preferred stock of an issuer, and another Client invests in the unsecured debt or common stock of the same issuer. In these situations, a conflict can arise when an issuer defaults on its debt or seeks protection from creditors in bankruptcy or reorganizations, because actions taken to protect the interests of one Client may be at the potential detriment of other Clients holding different securities or instruments of the same issuer.

Waterfall seeks to mitigate this risk in a number of ways. Waterfall may avoid certain investment opportunities by imposing limitations on both the maximum amounts and types of such investments in order to minimize the impact of any potential conflict. Additionally, Waterfall may enact internal procedures designed to minimize such conflicts, which could also have the effect of limiting certain investment opportunities. Lastly, if an actual conflict should arise, the investment professionals involved will bring the matter to the Waterfall Conflicts Review Committee to determine appropriate action to take on behalf of the various Clients involved, which may include: One or more Client(s) disposing of the security or instrument; recusal from voting with respect to such security or instrument; or where authorized in the constituent documents for such Client(s), delegating any such vote to an investor advisory committee or independent representative of such Client(s).

Furthermore, due to regulatory requirements and related Waterfall policies, certain Clients may be unable to invest in investments of issuers in which certain other Clients (e.g., registered funds) are investing or already hold an interest. As a result of these policies, Client(s) may be unable to participate in certain investments that may have otherwise been profitable for them.

Cross Transactions

Waterfall may also arrange for transactions between certain Clients, in which one Client buys a security from, or sells a security to, the account of another Client ("**cross transactions**"). Waterfall receives no compensation (other than its management and performance-based fees), directly or indirectly, for effecting cross transactions. Waterfall generally deems all of its clients as eligible to participate in cross transactions, however, there may be other restrictions which will prevent Waterfall, in the first instance, from including a client in a cross transaction (e.g., the client is an ERISA plan assets vehicle, the client is a registered fund, or the client-specific investment guidelines prohibit participating in cross transactions).

Waterfall engages in cross transactions only after determining the transaction is in the best interest of each participating Client and that the securities or other instruments are suitable and appropriate for each participating Client. Waterfall generally does not execute cross transactions through a broker-dealer. In those instances when a broker-dealer is used to execute a cross transaction, Waterfall confirms that the compensation paid to the broker-dealer is reasonable. In all cases, cross transactions are executed at a price deemed fair by Waterfall for all participating Clients.

Waterfall may arrange cross transactions at its discretion. Cross transactions do not require Client consent, unless otherwise set forth in the Client investment advisory agreements and/or other constituent documents.

Item No. 12: Brokerage Practices

Waterfall is authorized to determine the broker or dealer to be used for each securities transaction for the Clients. In selecting brokers or dealers to execute transactions, Waterfall need not solicit competitive bids and does not have an obligation to seek the lowest available brokerage commissions, mark-ups or other compensation (collectively “**Commissions**”). It is not Waterfall’s practice to negotiate “execution only” Commissions; thus, the Funds and the Investment Vehicles may be deemed to be paying for research and related services and other services provided by the broker or brokers which are included in the Commissions. Research and related services furnished by brokers will be limited to services which constitute research within the meaning of Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended, which generally may include information on the economy, industries, sectors, individual companies, statistical information, accounting and tax interpretations, political developments, legal developments affecting portfolio securities, technical market activity, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis, and analysis of corporate responsibility issues. Research services may be received in the form of written reports, telephone contacts, and meetings with security analysts.

In selecting brokers and negotiating Commissions, Waterfall will take into account the financial stability and reputation of the brokerage firms, the brokerage, research and related execution services and other services provided by such brokers, although the Clients may not, in any particular instance, be the direct or indirect beneficiary of the research or related services provided.

When it is determined that an investment opportunity would be appropriate for one or more Client accounts managed by Waterfall, Waterfall will seek to allocate the investment opportunity for all participating investment accounts in proportion to the relative amounts of capital available for investment by such investment account (e.g., remaining commitments plus investment proceeds available for reinvestment). As a general matter, whether any particular allocation is fair and equitable will depend upon the facts and circumstances, including the investment objectives, guidelines and restrictions of Waterfall’s various Clients as each are described in the applicable management agreement or offering/disclosure document, as well as the construction of each Client’s portfolio. As a consequence, Waterfall may determine not to cause a Client to participate in a transaction in which it is otherwise legally and financially able to participate. However, since certain investment opportunities may be suitable for more than one Client Waterfall will determine the amount of securities and other financial instruments to be purchased for or sold by each Client, based on the procedures noted below.

Certain investment opportunities, although appropriate for one or more Client accounts, may not be divisible among multiple accounts due to, among other reasons, the small size of the opportunity or the structure of the investment. To the extent an opportunity cannot be allocated among multiple accounts, such opportunities may be allocated among the different accounts on a basis that Waterfall considers fair and equitable over time, including allocating the first such opportunity to one account, the second such opportunity to another account and so on. This may be the case, for example, where Waterfall and its affiliates propose to acquire a large position in an issuer without causing the Funds to become overly exposed to that issuer. Because Waterfall may make non-pro rata allocations, certain accounts managed by Waterfall may produce results that are materially different from those experienced by other accounts in the same investment strategy. Waterfall and its affiliates have in

the past, and may in the future, establish special investment vehicles, or SPVs, to make investments in one or more securities or financial instruments.

Waterfall may choose to have each Client participate in an investment in any amount Waterfall deems to be fair and equitable. Waterfall need not cause its Clients to co-invest in a pro rata manner.

Notwithstanding the foregoing, the Sutherland REIT has been granted a right of first refusal with respect to the purchase of small balance commercial mortgage loans. To the extent such loans are an appropriate investment for a future Client of Waterfall at a later date, such loans will be allocated subject to the Sutherland REIT's right of first refusal.

Waterfall may, in the event that has the ability to acquire assets which exceed the capacity of the primary accounts for a specific strategy, may first allocate a portion of such assets to Clients for which such asset class is part of the primary investment mandate prior to allocating such assets to other Client accounts. In addition, Waterfall may only allocate an asset to a certain sub-set of eligible accounts should such acquisition be determinative by ownership of an underlying asset (e.g., allocating trust collateral only to such accounts which own the notes in such trust).

Waterfall recognizes that in both managing private funds and separate accounts and sub-advising one or more RICs ("side-by-side management"), the Firm may face a conflict between its fiduciary duty to all Clients and its own economic interest based upon the differing compensation paid to the Firm by particular accounts. As a matter of policy, the Firm will not permit such conflicts to influence trade allocation or other investment decisions, but rather will make such decisions in a manner that is fair and equitable to all Clients.

Waterfall's traders may on occasion experience errors with respect to trades made on behalf of Clients. Errors may occur either in the investment decision-making process (e.g., a decision may be made to purchase a security or an amount of a security that violates the client's investment restrictions) or in the trading process (e.g., a buy order may be executed as a sell (or vice versa)). Waterfall's Trade Error Policy dictates that a trade error will be corrected as soon after discovery as reasonably practical. Generally, the Firm will bear any loss to a Client as a result of a trade error. Conversely, Clients will retain any gain related to a trade error.

Item No. 13: Review of Accounts

Waterfall's Principals, together with the other members of the Adviser's respective investment management teams, have the primary responsibility of reviewing and monitoring all investments made for the Adviser's investment advisory Clients. After the purchase of an asset, a vital component of the Adviser's portfolio risk management is active bond and loan surveillance. Servicers provide monthly reports on collateral performance and the Adviser utilizes outside data providers to assist in the review and analysis of this data on most assets held in Client portfolios. Contact is made with the trustee or servicer, if necessary, to discuss discrepancies and unusual or negative credit trends. Each month, the pool performance is compared to the performance as projected by the Adviser. This process enables the Adviser to proactively manage the portfolio based on current credit trends in each individual holding.

In addition, Waterfall, either directly or through its administrator, provides the Funds' limited partners, members, shareholders and other Clients' monthly statements for their accounts, providing capital account balances and returns for the applicable period. Limited partners, members and shareholders, as the case may be, also receive audited annual reports.

Waterfall also provides investors with periodic fund updates which offer performance, and market conditions as well as commentary from Waterfall portfolio management.

Item No. 14: Client Referrals and Other Compensation

Waterfall does not receive economic benefit from non-advisory Clients for providing investment advice or other advisory services, and there are no sales charges payable to the Adviser, its affiliates of the Funds in connection with the offering of shares or interests, as applicable.

Waterfall has entered, and may in the future enter, into agreements with placement agents with respect to investors introduced to certain of the Funds by such placement agent. Such placement agents will generally receive compensation that may include a portion of the management and incentive fees and allocations received by Waterfall.

Further, in connection with certain securitization arrangements entered into by Investment Vehicles, the Adviser is eligible to receive collateral management, asset management or reporting fees. To the extent that such fees apply to securitized products in which the primary loan pools serving as collateral for such securitized product are derived from the Investment Vehicles, the Adviser shall rebate to such Investment Vehicles all such fees received therewith.

Item No. 15: Custody

Client assets generally are held in custody by unaffiliated broker/dealers or banks (i.e., qualified custodians), however, Waterfall may be deemed to have access to some Client cash or securities since the Adviser or an affiliate serves as the general partner or managing member of such Fund. In addition, in connection with one managed account, as the Adviser has the ability to direct payments from such Client account, the Adviser is considered to have custody.

Fund investors will not receive statements directly from the qualified custodian; rather statements are provided by the Funds' administrator. However, the Funds are subject to an annual audit and the audited financial statements are distributed to each investor. The audited financial statements will be prepared in accordance with generally accepted accounting principles by independent, certified public accountants and distributed within 120 days of each Fund's fiscal year end (e.g., December 31).

Item No. 16: Investment Discretion

Waterfall has discretionary trading authority to make investment decisions for its Clients in accordance with, and in furtherance of, the applicable investment strategy as set forth in the applicable offering documents and investment management agreements with such Client.

Item No. 17: Voting Client Securities

Given the focus of Waterfall's investment strategy, Waterfall anticipates rarely, if ever, voting proxies with respect to Clients' investments, and then generally in non-routine matters that will require case-by-case analysis.

To the extent Waterfall exercises voting authority over client securities, its general policy is to vote on proxy proposals, amendments, consents or resolutions (collectively, "**proxies**") in a manner that serves the best financial interests of its client and maximizes return in accordance with its investment strategies.

Waterfall follows procedures that are designed to identify conflicts or potential conflicts that could arise between its own interests and those of its Clients. If it is determined that any such conflict or potential conflict is not material, Waterfall may vote proxies notwithstanding the existence of the conflict. If it is determined, however, that a conflict of interest or potential conflict of interest is material, appropriate personnel of Waterfall will work to agree upon a method to resolve such conflict before voting proxies affected by the conflict. In addition, in certain situations a Client may direct Waterfall to vote in a particular proxy solicitation.

The foregoing summary of Waterfall's proxy voting policies is qualified in its entirety by the complete text of the policy, a copy of which may be requested, along with the Adviser's proxy voting record by contacting Kenneth Nick, Chief Compliance Officer, c/o Waterfall Asset Management, LLC, 1140 Avenue of the Americas, 7th Floor, NY, NY 10036.

Item No. 18: Financial Information

The Adviser is not aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments to its Clients, and has not been the subject of a bankruptcy petition.

Balance sheet is not required to be provided as none of the Adviser's Clients require or solicit prepayment of more than \$1,200 in fees per Client more than six months in advance of services rendered.